HOW TO PROTECT YOURSELF FROM A FORMER EMPLOYEE DISCLOSING OR DISTRIBUTING PROPRIETARY INFORMATION CONCERNING YOUR COMPANY

Because of the increasing frequency with which the current work force moves from job to job, it is imperative companies take steps to keep confidential and proprietary information from being leaked to competitors.

Consider the case of a roofing estimator whose job responsibilities may include procuring contracts or preparing bids. Performing these types of responsibilities involves close contact with customers and requires access to sensitive bidding information and a company’s bidding structure. You can ensure this information is protected by asking employees to enter into employment agreements that feature a nondisclosure or confidentiality agreement.

An employment agreement should include a provision that prohibits former employees from disclosing your company’s confidential and proprietary information, including a company’s pricing structure and customer and supplier lists, after their employment with your company has terminated. Your agreement can explicitly define the information the company considers confidential and proprietary and that is to be protected. However, for such a provision to be enforceable, certain requirements must be met.

A nondisclosure provision must be reasonable and protect an employer’s legitimate business concerns. When making these determinations, courts consider the following interests: Employers want to keep certain information they share with employees safe from competitors; employees have an interest in pursuing their livelihoods, developing and using their skills,
finding satisfying work and bettering their lives; and the public has an interest in free, open
competition among product and service providers. In consideration of these competing interests,
courts have required that a time limitation be established with regard to the period of
nondisclosure after termination of the employment relationship. Courts have routinely struck
down nondisclosure provisions that seek to protect the confidential information without an end to
the period of nondisclosure.

In contrast, confidential or proprietary information that rises to the level of a trade secret
under the law is granted protection from disclosure after termination, even in the absence of an
employment agreement with a nondisclosure provision, until the information no longer qualifies
as a trade secret under the law.

Employers often argue customer and supplier lists, as well as sensitive bidding
information, qualify as trade secrets entitled this information to the heightened protection under
the law afforded trade secrets. But what type of information qualifies as a trade secret is a fact-
sensitive issue.

Although a trade secret generally is not known outside a company, a trade secret need not
be the subject of a copyright, patent or trademark to be protected. A key difference between
trade secret protection versus patent law is that trade secret protection is not tied to the
information’s novelty. Moreover, trade secret law, unlike patent law, draws more from the
principles surrounding confidential and fiduciary relationships as opposed to property principles
commonly found in patent law.

Courts often look to the Uniform Trade Secrets Act (UTSA), which has been adopted in
at least 45 states, to determine whether the information at issue qualifies as a trade secret. Under

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UTSA, a trade secret is defined as “information, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, or a list of actual or potential customers or suppliers which is not commonly known by or available to the public and which information:

(A) Derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(B) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

Most courts consider the following factors when determining whether company information can be protected as a trade secret:

- The extent to which the information is known outside a company
- The extent to which the information is known by employees and others involved with a company
- The extent of measures taken by a company to guard the information’s secrecy
- The value of the information to a company and its competitors
- The amount of effort or money expended by a company in developing the information
- The ease or difficulty with which the information could be legally acquired or duplicated by others

Generally, whether a company has taken reasonable steps to protect its interests is the – more –
key factor in determining whether information is entitled to trade secret protection. Some courts consider requiring employees to enter into employment agreements with a nondisclosure provision as a sufficient step to warrant protection. Other courts require employers to go a step further by marking certain documents as “confidential” or prohibiting the duplication of such documents, for example. Often, whether an additional step is required will depend on the distinction between obvious trade secrets, such as formulas (which generally do not require an additional step) and nonintuitive secrets, such as supplier lists (which may require additional protection).

Customer lists can be protected as trade secrets depending on a list’s relative secrecy. Courts will look to the efforts and cost involved in compiling a list. For example, prospective customer lists generally are afforded less protection because such lists can be compiled from information readily available to the public from commercial means. Courts will find a company’s interest in its customer list warrants protection if the company’s relationship with its customers is near-permanent and except for his or her association with his or her employer, an employee would not have had contact with customers.

The following factors are considered when determining whether a near-permanent customer relationship exists:

- The amount of time it took a company to develop its clientele
- The amount of money a company invested in developing its clientele
- The degree of difficulty involved in developing the clientele
- The amount of personal customer contact by employees
- The extent of a company’s knowledge of its clientele

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The amount of time customers have been associated with a company

The continuity of the employer-customer relationship

If courts find that the information is entitled to trade secret protection, the courts still will analyze whether a former employee’s new position or job responsibilities will require or permit him or her to use or disclose confidential information. All that courts require is that an employee’s subsequent work be substantially similar to his or her previous employment and then it will be presumed that protection of the trade secret is required.

To ensure your company’s most sensitive information is protected, you must be able to show steps have been taken to ensure the information remains secret. The first step is to require those employees who will have access to sensitive information to enter into employment agreements with nondisclosure provisions at the time employment begins. An employment agreement will protect the confidentiality of proprietary information that does not rise to the level of a trade secret provided the nondisclosure provision contains a time limitation and the definition of “confidential information” in the agreement is not drafted too broadly to include information clearly not confidential. Additional steps may involve restricting employee access to sensitive information, marking sensitive information as “confidential” and establishing a company policy regarding the reproduction of sensitive company information. Provided these steps are taken, you have protection from a former employee disclosing or distributing proprietary information concerning your company.

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